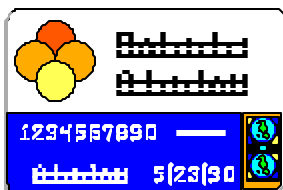


Most credit cards are unsecured. However, there are three ways in which some credit card lenders take collateral.



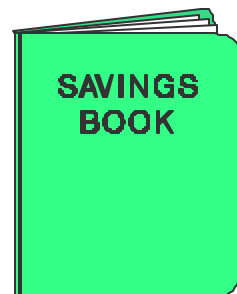
#1 SECURITY INTEREST IN ITEMS PURCHASED



Some credit card lenders, usually store credit such as Sears, claim to take collateral in items purchased with their card. This means that if you have problems making payments, those lenders may threaten to repossess property bought with the card. In addition, personal property collateral may affect your rights if you later need to file bankruptcy.

Most threats to repossess personal property are not carried out. Nevertheless, it is a good idea to know whether the security interest exists. If it does, use another card in preference to that card whenever possible.

#2 YOUR BANK ACCOUNT



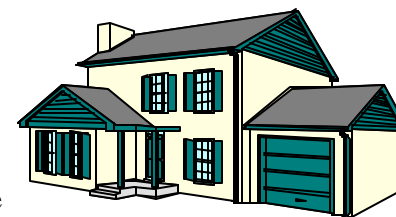
Another type of credit card taking a security interest involves card balances secured by a bank deposit. The card allows you a credit limit up to the amount you have on deposit in a particular bank account. If you can't make the payments, you lose the money in the account.

These cards are usually marketed as a good way to establish credit or to reestablish credit if you have had financial problems. They may be useful to establish that you can make regular monthly payments on a credit card after you have had problems in the past.

However, since almost everyone now gets unsecured credit card offers even after previous financial problems, there is less reason to consider allowing a creditor to use your bank deposits as collateral.

It is preferable not to tie up your bank account or to pay interest to a lender for the privilege of establishing that you can afford to make payments.

#3 HOME EQUITY LINE OF CREDIT



Finally, there are increasing opportunities to obtain credit cards in connection with a home equity line of credit. Each time you use the card, the balance is secured against your home.

In many cases these are sold by home improvement contractors as a good way to pay for home improvements. Sometimes the initial amount advanced on such a card is as much as your credit limit.

Home secured credit cards are almost always a bad idea. You should always seek to avoid using high-rate credit secured by your home because the potential consequence of nonpayment if you have financial problems is loss of your family's shelter by foreclosure. You will likely do better if you seek a more traditional home equity credit line from a bank at a lower rate of interest.

In general, all things being equal, you should seek and use credit cards which do not take collateral in preference to those that do. Since interest rates on cards that do take collateral are typically just as high as those on cards that do not, the choice in favor of unsecured cards should be clear.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



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CREDIT CARDS THAT TAKE SECURITY INTERESTS



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